



April 15, 2004

LEO THRASHER
Vice President

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. NW
Washington, D.C. 20551

Attention: Docket No. R-1180

Dear **Ms.** Johnson:

We appreciate the opportunity to comment on the regulatory burden that our community bank struggles with today. Our community bank excels at developing the trust and confidence of our customers. However, **we** now spend increasing amounts of time and resources to adhere to the **banking** regulations to **the** detriment of our customers. These regulations increase the cost of providing service to our customers. The regulatory burden of **any** one regulation is small, but the cumulative effect is staggering. The regulations now cause many consumers to **seek** help from predatory lenders **as** the community **bank** is so restricted in its **activities** that it is difficult to provide timely services to consumers. The following outlines some of the problems created by regulatory rules:

Truth in Lending (Federal Reserve Regulation Z)

1. *Right of Rescission.* One of the most burdensome requirements **is** the three-day right of rescission under Regulation Z. Rarely, if **ever**, does a consumer exercise the right. Consumers resent having to wait three additional days to receive loan proceeds after the **loan** is closed, **and** they often blame the **bank** for "withholding" their funds. Even **though** this is a statutory requirement, inflexibility in **the** regulation making it **difficult** to waive the right of rescission aggravates the problem. If not outright repealed, depository institutions should at least be given much greater latitude to allow customers to waive **the** right.
2. *Finance Charges.* Another problem under Regulation Z is the definition of the finance charge. Assessing what **must** be **included** in - or excluded from - the finance charge is not easily determined, especially fees and charges levied by third parties. **And** yet, the calculation of **the** finance charge is critical in **properly** calculating the annual percentage rate (APR). This **process** desperately needs simplification so that **all** consumers can understand **the** APR and bankers can easily calculate it.

3. *Credit Card Loans.* Resolution of billing-errors within the **given and limited** time frames for credit card disputes **is** not always practical. The rules for resolving billing-errors are heavily weighted in **favor** of the consumer, making banks increasingly **subject to fraud** as individuals learn how to game the system, **even** going so far as to do **so to** avoid legitimate **bills** at the expense of the **bank**. There **should** be increased **penalties** for frivolous **claims** and more responsibility expected of consumers.

Equal Credit Opportunity Act (Federal Reserve Regulation B)

Regulation **B** creates a number of compliance problems and burdens for **banks**. Knowing when an application has **taken** place, **for instance**, is often **difficult** because the line between **an inquiry** and an application is not clearly defined.

1. *Spousal Signatures.* Another problem is the issue of spousal signatures. The requirements make it very difficult for banks located in community property **states**. Especially when state community property **laws** do not clearly define signature requirements. **This** leaves the banker facing a compliance issue clashing with a **safety and soundness** issue **and wondering**, when a default situation arises, **will** the bank be able to enforce collection actions.
2. *Adverse Action Notices.* Another problem **is** the **adverse** action notice. It would be preferable if banks could **work with** customers **and** offer them **alternative** loan products if **they do not** qualify for the type of loan for which they originally applied. However, that may then trigger requirements to **supply** adverse action notices. For **example**, it **may be** difficult to decide whether an application is truly incomplete or whether it can be **considered** "withdrawn". A straightforward rule on when an **adverse** action notice **must** be sent -**that** can easily be understood - should be developed.
3. *Other Issues.* Regulation B's requirements **also** complicate other instances of customer relations. For example, to offer special accounts for seniors, a **bank** is limited by restrictions **in** the regulation. And, most important, reconciling the regulation's requirements not to maintain information on the **gender or race** of a borrower and the need to maintain sufficient information to **identify** a customer under section 326 of the **USA PATRIOT** Act is difficult and needs better regulatory guidance.

Home Mortgage Disclosure Act (HMDA)(Federal Reserve Regulation C)

1. *Exemptions.* The HMDA requirements are **the** one area subject to the current comment period that **does not** provide specific protections for individual consumers. HMDA **is** primarily a data-collection and **reporting** requirement and therefore lends itself much more to a tiered regulatory requirement. The current exemption for banks **with less** than \$33 million in assets is far too **low** and should be increased to at least \$250 million.

2. *Volume of Data.* The volume of data that **must** be collected and reported **is** clearly burdensome. Ironically, at **a** time when regulators are reviewing burden, the burden associated with HMDA data collection was **only** recently increased substantially. Consumer activists **are** constantly clamoring for additional **data** anti the recent changes to the requirements acceded to their demands without a clear cost-benefit analysis. All consumers ultimately pay for the data collection **and** reporting in higher costs, and regulators should recognize that.

Certain data collection requirements are difficult to apply in practice and therefore add to regulatory burden **and** the potential for error, e.g., **assessing loans against HOEPA** (the Home Owners Equity Protection Act) **and** reporting rate **spreads**; determining the **date** the interest **rate** on a loan was set; determining physical property address or census tract information in rural areas, etc.

Flood Insurance

The current **flood** insurance regulations create difficulties with customers, who often do not understand why **flood** insurance **is** required and that the federal government, not the **bank**, imposes the requirement. The government needs to **do a better job** of educating consumers to the reasons and requirements of flood hazard insurance. Flood insurance requirements should be streamlined **and** simplified to be understandable.

It would be much easier for banks, especially community banks that have **limited** resources, to comply with regulatory requirements if requirements **were** based on products **and** all rules that apply to a specific product **were** consolidated in one place. Second, regulators require banks to provide customers with understandable disclosures **and** yet **do** not hold themselves to the same standard in **drafting** regulations that can be easily understood by bankers. Finally, examiner training needs to **be** improved to ensure that regulatory requirements **are** properly **and** uniformly applied.

The sheer number and complexity of **the** regulatory requirements facing the community banking industry today **severely** taxes the resources **of** a community **bank**. We need help immediately to forestall the continued loss **of many** fine community banks **and** the loss of personal service to **many** small businesses, customers, and communities. Community banks understand the special circumstances of the local community and provide a more responsive level of service than **the** megabanks. However, community banks need relief from the crushing burden of regulations to order **to have** a level **playing** field **with** the megabanks and provide a choice for millions of businesses and consumers. Thank you for your consideration of these comments.

Sincerely,



Leo Thrasher
Vice-President